

Select Committee on Pension Policy

P.O. Box 40914
Olympia, WA 98504-0914
actuary_st@leg.wa.gov

Executive Committee

October 21, 2003

9 - 10 AM
12:30 PM

Senate Conference Rooms A-B-C, Olympia

AGENDA

(A) Possible Agenda Issues

- A-1 **Recovery of Lost Purchasing Power/ Minimum Benefit to Cover Health Care Cost**
– Bob Baker
- A-2 **Military Service Credit** – Pat Thompson
- A-3 **Mandatory Retirement Age in State Patrol, 60 to 65** – Bob Baker
- A-4 **State Patrol Death-in-Service Survivor Benefit** – Bob Baker
- A-5 **JCPP Bills that Did Not Pass in 2003**
– Bob Baker
- A-6 **School District Payroll Reporting (As Paid/As Earned)** – Representative Fromhold

(B) Executive Committee Recommendations

- B-1 **Post-retirement Employment Report (Full committee today)**
- B-2 **Part-time Educational Staff Associates**
- B-3 **Plan 3 Vesting (Full committee today)**
- B-4 **Public Safety Benefits**
Representatives Alexander and Fromhold
- B-5 **Others?**

(C) November Full and Executive Committee Agendas

(D) Executive Session on Personnel Issues

Representative Gary Alexander

Elaine M. Banks
TRS Retirees

Marty Brown, Director
Office of Financial Management

Senator Don Carlson

John Charles, Director*
Department of Retirement Systems

Representative Steve Conway*
Chair

Richard Ford
PERS Retirees

Senator Karen Fraser

Representative Bill Fromhold

Leland A. Goeke*
TRS and SERS Employers

Bob Keller
PERS Actives

Corky Mattingly
PERS Employers

Doug Miller
PERS Employers

Glenn Olson
PERS Employers

Representative Cheryl Pflug

Diane Rae
TRS Actives

Senator Debbie Regala

J. Pat Thompson*
PERS Actives

David Westberg
SERS Actives

Senator Shirley Winsley*
Vice Chair

*Executive Committee

360-753-9144

Fax: (360) 586-8135

TDD: 1-800-635-9993

Select Committee on Pension Policy

2420 Bristol Court S.W., Suite 101 – P.O. Box 40914
Olympia, Washington 98504-0914
Fax: (360) 586-8135 (360) 753-9144 TDD: 1-800-635-9993

DRAFT MINUTES EXECUTIVE COMMITTEE MEETING

September 16, 2003

The Executive Committee of the Select Committee on Pension Policy met in Senate Conference Rooms A-B-C, on September 16, 2003.

Executive Committee members attending:

Representative Steve Conway, Chair
Senator Shirley Winsley, Vice Chair
Leland Goeke
J. Pat Thompson
Steve Nelsen, Department of Retirement Systems, alternate for John Charles

Other members attending:

Elaine M. Banks
Senator Karen Fraser
Bob Keller

Senator Winsley, Vice-Chair, called the meeting to order at 3:40 PM

(A) Possible Agenda Issues

A-1 Relaxing Gain-sharing Safety Net Provisions

Bob Baker, Senior Research Analyst, reviewed the handout entitled, "Relaxing Gain-sharing Safety Net Provisions."

Members discussed the issue and decided to review it during the 2004 interim for possible legislation in 2005.

A-2 Recovery of Lost Purchasing Power

Bob Baker, Senior Research Analyst, reviewed the handout entitled, "Recovery of Lost Purchasing Power."

Members discussed increasing retirees' benefit to a level that would cover their health care. Steve Nelsen, Department of Retirement Systems, said he would provide information on the number of people in this category for the next Executive Committee meeting.

Senator Winsley moved that the “Recovery of Lost Purchasing Power” report be scheduled for the November SCPP meeting. Seconded

MOTION CARRIED

A-3 LEOFF 1 Survivor Benefits

Bob Baker, Senior Research Analyst, reviewed the handout entitled, “LEOFF 1 Survivor Benefits.” Member discussion followed. Senator Winsley directed staff to look at the costs of the age differential of the spouse and schedule the issue for the November Committee Agenda.

Representative Conway moved that “LEOFF 1 Survivor Benefits” be scheduled for the November SCPP meeting. Seconded

MOTION CARRIED

A-4 Extended School Year Post-Retirement Employment

Bob Baker, Senior Research Analyst, reviewed the handout entitled, “Extended School Year Post-Retirement Employment Issue.”

Senator Winsley moved that the Extended School Year Post-Retirement Employment Issue” report be scheduled for the November SCPP meeting. Seconded.

MOTION CARRIED

A-5 Plan 3 Vesting

Senator Winsley moved that the “Plan 3 Vesting” report be scheduled for the October SCPP meeting. Seconded.

MOTION CARRIED

A-6 School District Payroll Reporting (As Paid/As Earned)

Bob Baker, Senior Research Analyst, reviewed the handout entitled, “School District Payroll Reporting (As Paid/As Earned).”

Representative Conway moved to put the “School District Payroll Reporting (As paid /As Earned)” report on hold until Representative Fromhold’s report is received. Seconded.

MOTION CARRIED

A-7 Consequences of People Working Until 65

Bob Baker, Senior Research Analyst, reviewed the handout entitled, “Consequences of People Working Until 65.”

Senator Winsley moved to study PERS, SERS, TRS Plans 2 and 3 and the consequences of age 65 retirement during the 2004 interim in preparation for the 2005 Session. Seconded.

MOTION CARRIED

A-8 Military Service Credit

Bob Baker, Senior Research Analyst, reviewed the handout entitled, "Military Service Credit."

Senator Winsley moved that the "Military Service Credit" report be scheduled for the October Executive committee meeting. Seconded.

MOTION CARRIED

The following person testified:

Bob Wooley, self

Mr. Wooley was asked to draft a letter addressed to the Chair of the SCPP Committee regarding the Extended School Year issue and it will be circulated to all Committee members.

Staff was directed to draft a letter to Fiscal Committees postponing the final "Post-retirement Employment Report" until December, 2003.

A-9 Other Issues

Members discussed:

- 2003 JCPP Bills that did not pass
- Improving health care benefits

The meeting adjourned at 5:10 PM.

Recovery of Lost Purchasing Power – Minimum Benefit to Cover Health Care Cost

Benefits Don't Cover Premiums

As of January 2003, nearly 900 retirees from the retirement plans administered by Washington State were paying more for medical benefits than they were receiving as a retirement allowance. While this has been partially a result of the dramatic rise in health care insurance, it also is a function of the modest benefits earned by low wage and short-service retirees. Retirement benefits are based on a member's salary and years of service; those members with low salaries or short service, or a combination of both, will have lower benefits.

Characteristics of Low Benefit Retirees Whose Benefit is Less Than Their Health Care Premium

System / Plan	Total Annuitants	Low Benefit Retirees	Averages			
			Years of Service	Final Comp.	Retirement Age	Years Retired
PERS 1	54,006	232	9.4	\$16,418	59.2	14.2
PERS 2	9,741	351	9.7	\$22,962	60.9	5.3
PERS 3*	9	3	17.0	\$29,671	59.6	0.2
TRS 1	33,148	99	9.7	\$19,172	59.7	11.7
TRS 2	823	12	11.9	\$46,205	52.0	3.4
TRS 3*	283	72	14.6	\$47,818	57.8	1.9
SERS 2	437	35	12.2	\$16,585	63.5	0.9
SERS 3*	185	64	15.2	\$22,290	62.7	0.8
TOTAL	98,632	868	10.6	\$22,880	60.2	7.6

*Does not include value of Plan 3 member account.

- The average retiree in PERS has 19.7 years of service and an average final compensation of \$29,458.
- The average retiree in TRS has 25.5 years of service and an average final compensation of \$39,123.
- Of the 868 low benefit retirees in this study, 237 retired on a duty or non-duty disability. Of those, the great majority (160) were from PERS 2.

Fiscal Characteristics of Low Benefit Retirees Whose Benefit is Less Than Their Health Care Premium

System / Plan	Monthly Averages				
	Base Benefit	Health Care Premium*	Base Difference	Benefit After Options	After Options Difference
PERS 1	\$316	\$359	\$44	\$254	\$105
PERS 2	\$223	\$352	\$129	\$217	\$135
PERS 3	\$235	\$418	\$183	\$235	\$183
TRS 1	\$331	\$387	\$56	\$242	\$145
TRS 2	\$354	\$511	\$157	\$352	\$159
TRS 3	\$296	\$540	\$244	\$291	\$249
SERS 2	\$251	\$394	\$143	\$245	\$149
SERS 3	\$188	\$404	\$216	\$186	\$218
Total	\$267	\$381	\$115	\$237	\$145
Total Annual Difference**			\$1,196,149		\$1,507,825

*May include full family coverage.

**Annual cost for one-time adjustment only.

Minimum Pension Benefit

- Established in 1996 for PERS 1 and TRS 1 retirees
- Provides a minimum monthly benefit prior to reductions for survivor options, annuity withdrawal, or optional COLA
- Does not apply to duty disability retirees
- Increased each year by the “annual increase” used to adjust the Uniform COLA

As of July 1, 2003, the minimum monthly benefit was \$31.76 times a member’s years of service, or \$952.80 per month for a member with 30 years of service.

Retiree Health Coverage

- Established in 1995 to allow state, higher-ed, and K-12 retirees to continue health insurance by paying the same premium as employers
- Retirees in the same community risk-pool as active employees
- In 2004, 11,000 pre-Medicare and 36,000 Medicare-eligible retirees will pay premiums to maintain coverage
- Implicit monthly subsidy to pre-Medicare retirees = \$382 per retiree
- Explicit monthly subsidy to Medicare retirees = \$124 per retiree
- Subsidies to State and K-12 retirees in the next biennium = \$223 million
- SSI for eligible disableds



Public Employees Benefits Board

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2003 retiree monthly rates

(effective January 1, 2003)

Medical rates

[if no Medicare](#)[with Medicare](#)[Medicare supplement plans](#)

Dental rates

(must also have medical)

Medical rates (without Medicare)

	Subscriber	Subscriber & Spouse/SSDP	Subscriber & Child(ren)	Full Family
Group Health Cooperative	\$297.25	\$588.87	\$515.97	\$807.59
Group Health Options	311.58	617.53	541.04	846.99
Kaiser Permanente	279.35	553.07	484.64	758.36
PacifiCare	308.10	610.57	534.95	837.42
Premera Blue Cross/Foundation	334.46	663.29	581.08	909.91
RegenceCare	321.49	637.35	558.39	874.25
Uniform Medical Plan	303.46	601.29	526.83	824.66

Medical rates (with Medicare)

	Subscriber Only	Subscriber & Spouse/SSDP		Subscriber & Child(ren)		Full Family		
		(1 elig)	(2 elig)	(2 elig)	(1 elig)	(1 elig)	(2 elig)	(3 elig)
Group Health Cooperative	\$113.53	\$405.15	\$221.43	\$221.43	\$332.25	\$623.87	\$440.15	\$329.33
Group Health Options	125.41	431.36	245.19	245.19	354.87	660.82	474.65	364.97
Kaiser Permanente	89.25	362.97	172.87	172.87	294.54	568.26	378.16	256.49
PacifiCare	84.13	386.60	162.63	162.63	310.98	613.45	389.48	241.13
Premera Blue Cross/Foundation	275.38	604.21	545.13	545.13	522.00	850.83	791.75	814.88
RegenceCare	182.53	498.39	359.43	359.43	419.43	735.29	596.33	536.33
Uniform Medical Plan	132.62	430.45	259.61	259.61	355.99	653.82	482.98	386.60

Medicare supplement plans

Premera Blue Cross	Subscriber Only	Subscriber & Spouse/SSDP			Subscriber & Child (ren)*	Full Family		
		(1 elig) *	(2 elig - 1 ret, 1 dis)	(2 elig)		(1 elig) *	(2 elig - 1 ret, 1 dis)*	(2 elig) *
Plan E Retired	\$51.98	\$349.81	\$126.14	\$98.33	\$275.35	\$573.18	\$349.51	\$321.70
Plan E Disabled	79.79	377.62	126.14	153.95	303.16	600.99	349.51	377.32
Plan J Retired	146.14	443.97	426.60	286.65	369.51	667.34	649.97	510.02
Plan J Disabled	286.09	583.92	426.60	566.55	509.46	807.29	649.97	789.92

*If a Medicare supplement plan is selected, non-Medicare eligible dependents are enrolled in the Uniform Medical Plan (UMP). The rates shown reflect the total rate due, including both the Medicare supplement and UMP premiums.

Dental rates

	Subscriber Only	Subscriber & Spouse/SSDP	Subscriber & Child(ren)	Full Family
DeltaCare, administered by Washington Dental Service	\$28.53	\$57.06	\$57.06	\$85.59
Regence BlueShield Columbia Dental Plan	36.84	73.68	73.68	110.52
Uniform Dental Plan	32.92	65.84	65.84	98.76

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Military Service Credit

All Systems and Plans award up to 5 years of service credit for interruptive military service.

PERS 1 also awards service credit for up to 5 years of prior military service if that service were during specific periods of conflict.

WSPRS 1 also awards service credit for up to 5 years of prior military service regardless of the period of service.

In the recent creation of WSPRS 2, service credit for prior military service was eliminated.

Mandatory Retirement Age in State Patrol, 60 to 65

The Washington State Patrol Troopers Association has requested that the mandatory retirement age in the Washington State Patrol Retirement System be increased from age 60 to age 65 (letter attached). The Washington State Patrol retirement system is the only open state-administered system with a mandatory retirement age. All members, except the Chief, are required to retire at age 60. The Chief may serve until age 65.

State Patrol Death-in-Service Survivor Benefit

The Washington State Patrol Troopers Association has requested that the death-in-service survivor benefit for Washington State Patrol Retirement System plan 2 beneficiaries be the unreduced earned benefit of the member (letter attached).

Current WSPRS 2 Survivor Benefits

The beneficiaries of a Washington State Patrol Retirement System (WSPRS) plan 2 member who died in the line of duty, was not eligible to retire, and had less than 10 years of service, receive a refund of the member's contributions plus interest.

The beneficiaries of a WSPRS 2 member who died in the line of duty, was eligible to retire, or had at least 10 years of service, receive either:

1. A refund of 150% of the member's contributions plus interest; or
2. A joint and 100% retirement allowance actuarially reduced from first retirement eligibility (allowance is subject to an annual CPI-based COLA of up to 3%).

Beneficiaries also receive a \$150,000 lump-sum death benefit.

Other Death Benefits

Survivors of law enforcement officers who die in the line of duty are eligible to receive a \$150,000 lump-sum Federal benefit.

Survivors of all open systems are also eligible for tax-free benefits from Labor and Industries of up to 120% of the state annual average wage, and social security survivor benefits.

Death Benefits in Other Systems

Chapter 155, Laws of 2003 provides that the retirement benefits of PERS, SERS, and TRS members killed in the course of employment are not actuarially reduced, but are rather calculated as an unreduced immediate benefit.

Appropriations Committee

HB 1323

Brief Description: Establishing the retirement age for members of the Washington state patrol retirement system.

Sponsors: Representatives Hankins, Delvin, O'Brien, Ericksen, Lovick, Roach, Woods, Benson and Chase.

Brief Summary of Bill
<ul style="list-style-type: none">Increases the mandatory retirement age for members of the Washington State Patrol Retirement System from age 60 to age 65.

Hearing Date: 2/25/03

Staff: David Pringle (786-7310).

Background:

The Washington State Patrol Retirement System (WSPRS) provides retirement benefits to the 1,027 active and 696 retired commissioned officers of the Washington State Patrol. There are two tiers of benefits within the WSPRS, one for officers commissioned before January 1, 2003 and another for those commissioned on or after January 1, 2003.

There are a variety of differences between the two tiers of benefits in WSPRS, including the period over which average salary is calculated and credit for prior military service credit; however, members of both benefit tiers are eligible to retire at either age 55 or with 25 years of service credit. Any member except the Chief of the Washington State Patrol must retire on the first day of the calendar month following the month that they reach 60 years of age.

Since 1997, the median retirement age for WSPRS members has been 52 years of age. Also since 1997 five members have been mandatorily retired at age 60. By June 30, 2003, there will be four Troopers and three Sergeants of age 58 or greater.

Summary of Bill:

The mandatory retirement age for members of the Washington State Patrol Retirement System is increased from age 60 to age 65.

Appropriation: None.

Fiscal Note: Available.

Effective Date: The bill takes effect 90 days after adjournment of session in which bill is passed.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	2/3/03	HB 1323

SUMMARY OF BILL:

This bill impacts the Washington State Patrol Retirement System (WSPRS) by increasing the mandatory retirement age from 60 to 65.

Effective Date: 90 days after session.

CURRENT SITUATION:

Currently, members of the WSPRS must retire at 60 years of age. Only the Chief of the Washington State Patrol may serve after age 60. The WSPRS is the only open state-administered retirement system that has a mandatory retirement age.

Members who retire with at least 25 years of service are eligible for up to 5 years of prior military service.

MEMBERS IMPACTED:

We estimate that any of 1,027 active members of this system could be affected by this bill if they desired to work beyond age 60.

This bill would allow active members to continue to earn additional pension benefits and have continued access to subsidized health care benefits after age 60.

This bill would also allow active members who will complete 25 years of service after age 60 (current mandatory retirement age) to earn prior military service credit if eligible.

FISCAL IMPACT:

Currently few members work to age 60. In most cases, the actuarial present value of an unreduced pension at age 60 is greater than the value of an increased pension benefit commencing after age 60 (increased for salary and service beyond age 60).

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

<i>(Dollars in Millions)</i>		Washington State Patrol Retirement System:		
		Current	Increase	Total
Actuarial Present Value of Projected Benefits		\$655	\$(2)	\$653
(The Value of the Total Commitment to all Current Members)				
Unfunded Actuarial Accrued Liability		N/A	N/A	N/A
(The Portion of the Plan 1 Liability that is Amortized at 2024)				
Unfunded Liability (PBO)		\$(229)	\$(2)	\$(231)
(The Value of the Total Commitment to all Current Members Attributable to Past Service)				
Required Contribution Rate		(9.50)%	(.16)%	(9.66)%

Fiscal Budget Determinations:

None while the plan remains fully funded. In other words, the actuarial value of assets exceeds the actuarial present value of projected benefits before and after this proposed benefit change.

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2001 actuarial valuation report of the Washington State Patrol Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

The retirement rates for LEOFF 2 were used for ages 60 to 65: (33% for age 60, 37% for ages 61 to 63, 48% age 64, 100% for age 65)

4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2003 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Computed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

JCPP Bills That Did not Pass in 2003

The Joint Committee on Pension Policy forwarded 13 bills to the 2003 legislature, 10 of which passed into law. The three bills that did not pass dealt with:

- *Age 70½*: Receipt of retirement benefits at age 70½;
- *Opt In/Opt Out*: Allowing state elected officials the option of retirement or continued membership in their retirement plan during each term of office; and
- *Age 66 COLA*: Allowing PERS 1 and TRS 1 retirees, who have been retired for at least one year, to begin receiving the Uniform COLA on July 1 of the calendar year in which they turn age 66.

SENATE BILL REPORT

SB 5093

As Passed Senate, February 21, 2003

Title: An act relating to allowing members of the teachers' retirement system, the school employees' retirement system, and the public employees' retirement system to begin receiving benefits without leaving service at age seventy and one-half.

Brief Description: Allowing members of the teachers' retirement system, the school employees' retirement system, and the public employees' retirement system to begin receiving benefits without leaving service at age seventy and one-half.

Sponsors: Senators Spanel, Carlson, Fraser, B. Sheldon, Kohl-Welles, Haugen and Rasmussen; by request of Joint Committee on Pension Policy.

Brief History:

Committee Activity: Ways & Means: 1/28/03, 2/3/03 [DP].

Passed Senate: 2/21/03, 45-1.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Zarelli, Vice Chair; Brown, Doumit, Fairley, Fraser, Hale, Honeyford, Johnson, Poulsen, Regala, Sheahan, B. Sheldon and Winsley.

Staff: Erik Sund (786-7454)

Background: Section 401(a)(9)(c) of the Internal Revenue Code requires that all pension and retirement benefits begin in April of the year after a plan member reaches age 70 ½ or retires. If payments are not initiated by that time, members are subject to a tax equivalent to 50 percent of the amount that they would receive if they were to retire. In order to begin collecting their benefits, members of the Teachers' Retirement System (TRS), the School Employees' Retirement System (SERS), and the Public Employees' Retirement System (PERS) must leave employment.

Summary of Bill: Members of TRS, SERS, and PERS may begin to collect benefits at age 70½ without separating from service. Employees choosing to begin benefits in this way cease to earn new service credit or make contributions.

Note that the provisions of this act do not apply to current elected or appointed officials unless they leave their offices, or are reappointed or reelected.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: This bill would improve the retirement system; however, it would be more equitable if the judicial retirement plans were included.

Testimony Against: None.

Testified: Senator Harriet Spanel, 40th District; Robert Harris, Superior Court Judges' Association and Board of Judicial Administrators.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	1/23/03	SB 5093/HB 1209

SUMMARY OF BILL:

This bill impacts all of the plans of the Teachers' Retirement System (TRS), the School Employees' Retirement System (SERS) and the Public Employees' Retirement System (PERS) by permitting vested members who attain age 70½ to apply to the Department of Retirement Systems to begin their benefits without requiring that they separate from service. Upon application for retirement benefits an individual ceases active membership and no longer makes contributions nor receives service credit. Current state elected and appointed officials are exempt from this act unless they leave elected office, are reappointed or re-elected after the effective date of the act.

Effective Date: 90 days after session.

CURRENT SITUATION:

Current law requires members of TRS, SERS, and PERS to retire before benefits begin regardless of age. This generally requires a member to first separate from service and then apply to the Department of Retirement Systems for retirement.

MEMBERS IMPACTED:

We estimate that approximately 450 members are age 70½ and eligible to receive benefits.

FISCAL IMPACT:

The cost of this bill is insufficient to affect contribution rates.

SENATE BILL REPORT

SB 5095

As Passed Senate, February 18, 2003

Title: An act relating to allowing a member holding state elective office the option during each term of office of membership or retirement and beginning their retirement allowance in the law enforcement officers' and fire fighters' retirement system, the teachers' retirement system, the school employees' retirement system, and the public employees' retirement system.

Brief Description: Allowing a member holding state elective office the option during each term of office of membership or retirement and beginning their retirement allowance in the law enforcement officers' and fire fighters' retirement system, the teachers' retirement system, the school employees' retirement system, and the public employees' retirement system.

Sponsors: Senators Spanel, Jacobsen, Carlson, B. Sheldon and Rasmussen; by request of Joint Committee on Pension Policy.

Brief History:

Committee Activity: Ways & Means: 1/28/03, 2/3/03 [DP].

Passed Senate: 2/18/03, 45-4.

SENATE COMMITTEE ON WAYS & MEANS

Majority Report: Do pass.

Signed by Senators Rossi, Chair; Hewitt, Vice Chair; Zarelli, Vice Chair; Brown, Doumit, Fairley, Fraser, Hale, Honeyford, Johnson, Poulsen, Regala, Sheahan, B. Sheldon and Winsley.

Staff: Erik Sund (786-7454)

Background: State elected officials who are members of the Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF) Plan 2, the Public Employees' Retirement System (PERS), the Teachers' Retirement System (TRS) Plans 2 and 3, or the School Employees' Retirement System (SERS), must resign from office in order to retire from their plan and begin to collect benefits, regardless of their age.

Summary of Bill: Elected officials who are members of LEOFF Plan 2, PERS, TRS Plans 2 and 3, or SERS, are permitted to retire from their plans during a 90-day window at the beginning of each term of office without having to leave their office, provided that they are eligible under the requirements of their individual plans. Officials may choose instead to continue as active members of their plans, making contributions and accumulating service credit in the regular fashion.

Appropriation: None.

Fiscal Note: Available.

Effective Date: Ninety days after adjournment of session in which bill is passed.

Testimony For: This bill would treat retired employees who are later elected to office more fairly; however, it would be more equitable if the judicial retirement plans were included.

Testimony Against: None.

Testified: Senator Harriet Spanel, 40th District; Robert Harris, Superior Court Judges' Association and Board of Judicial Administrators.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:	CODE:	DATE:	BILL NUMBER:
Office of the State Actuary	035	1/24/03	SB 5095/HB 1201

SUMMARY OF BILL:

This bill impacts the Law Enforcement Officers' and Fire Fighters' Retirement System plan 2, the Public Employees Retirement System, the Teachers' Retirement System plan 2 and plan 3, and the School Employees' Retirement System by permitting members who are state elected officials to continue or resume membership, and if otherwise eligible, retire and begin their retirement allowance at the beginning of each term of office. A state elected official member who chooses to end membership at the beginning of a term of office shall neither make contributions nor earn service credit for the duration of that term.

Effective Date: 90 days after session.

CURRENT SITUATION:

State elected official members of most Washington State Retirement Systems and plans must separate from service in order to retire and begin receipt of their retirement benefits regardless of age. While the rules for state elected officials vary by system and plan, the Teachers' Retirement System plan 1 is a notable distinction in permitting state elected officials, if otherwise eligible, to begin their retirement benefit while serving in state elective office.

FISCAL IMPACT:

The cost of this bill is insufficient to affect contribution rates.

FISCAL NOTE

REQUEST NO.

RESPONDING AGENCY:

CODE:

DATE:

BILL NUMBER:

Office of the State Actuary

035

1/23/03

HB 1197/SB 5097

SUMMARY:

This bill impacts the Public Employees' Retirement System (PERS) Plan 1 and Teachers' Retirement System (TRS) Plan 1 by allowing those who have been retired for one year, and will be at least age 66 by December 31st, to receive the annual increase paid on July 1st of that year.

Effective Date: July 1, 2003.

CURRENT SITUATION:

The current provision requires the member to have been retired one year and to be at least age 66 on July 1st to be eligible for the annual increase paid that year. This means that some members will get their first COLA as early as age 66, while others will not get theirs until age 67. This bill would change the age eligibility so that members would get their COLA as early as age 65½, but no later than age 66½. This bill does not change the requirement that the member must be retired at least one year to receive the initial annual increase.

MEMBERS IMPACTED:

We estimate that 50% of the members who are under age 65 would be affected by this bill.

TRS Plan 1	Under Age 65	Total
Receiving a Benefit	10,438	32,195
Actives	13,784	13,971
Vested Terminated	1,957	1,990

PERS Plan 1	Under Age 65	Total
Receiving a Benefit	11,482	53,538
Actives	23,205	23,981
Vested Terminated	3,151	3,310

We estimate that for a typical member impacted by this bill, the initial annual increase would be paid one year earlier. The annual increase for July 1, 2003 is \$1.14 per month for each year of service. The annual increase is increased by 3% each year and by future "gain-sharing" amounts. The typical recipient of the Uniform COLA has 19 years of service in PERS and 25 years of service in TRS.

FISCAL IMPACT:

Actuarial Determinations:

The bill will impact the actuarial funding of the system by increasing the present value of benefits payable under the System (for existing members impacted by this bill) and the required actuarial contribution rate as shown below:

Teachers' Retirement System and Public Employees' Retirement System (Plan 1):

<i>(Dollars in Millions)</i>	System:	Current	Increase	Total
Actuarial Present Value of Projected Benefits	PERS 1	\$ 12,244	\$ 33	\$ 12,277
(The Value of the Total Commitment to all Current Members)	TRS 1	10,050	29	10,079
Unfunded Actuarial Accrued Liability	PERS 1	\$ 860	\$ 33	\$ 893
(The Portion of the Plan 1 Liability that is Amortized at 2024)	TRS 1	400	29	429
Unfunded Liability (PBO)	PERS 1	\$ 301	\$ 30	\$ 331
(The Value of the Total Commitment to all Current Members Attributable to Past Service)	TRS 1	(22)	27	5
Required Contribution Rate - Employer/State	PERS	2.05%	.02%	2.07%
	SERS	1.74%	.02%	1.76%
	TRS	2.22%	.05%	2.27%

Fiscal Budget Determinations:

As a result of the higher required contribution rate, the increase in funding expenditures (for existing members impacted by this bill) is projected to be:

	<u>PERS/SERS</u>	<u>TRS</u>
Increase in Contribution Rates:		
Effective 9/1/2003		
Employee (Plan 2)	0.00%	0.00%
Employer	0.02%	0.05%
Costs (in Millions):		
2003-2005		
State:		
General Fund	\$ 0.8	\$ 3.1
Non-General Fund	0.9	0.0
Total State	\$ 1.7	\$ 3.1
Local Government	\$ 1.5	\$ 0.6

	<u>PERS/SERS</u>	<u>TRS</u>
2005-2007		
State:		
General Fund	\$ 1.0	\$ 3.4
Non-General Fund	<u>1.1</u>	<u>0.0</u>
Total State	\$ 2.1	\$ 3.4
Local Government	\$ 1.8	\$ 0.7
2003-2028		
State:		
General Fund	\$ 16.8	\$ 56.1
Non-General Fund	<u>18.5</u>	<u>0.0</u>
Total State	\$ 35.3	\$ 56.1
Local Government	\$ 31.3	\$ 11.5

STATEMENT OF DATA AND ASSUMPTIONS USED IN PREPARING THIS FISCAL NOTE:

The costs presented in this fiscal note are based on our understanding of the bill as well as generally accepted actuarial standards of practice including the following:

1. Costs were developed using the same membership data, methods, assets and assumptions as those used in preparing the September 30, 2001 actuarial valuation report of the Public Employees' Retirement System and Teachers' Retirement System.
2. As with the costs developed in the actuarial valuation, the emerging costs of the System will vary from those presented in the valuation report or this fiscal note to the extent that actual experience differs from that projected by the actuarial assumptions.
3. Additional assumptions used to evaluate the cost impact of the bill which were not used or disclosed in the actuarial valuation report include the following:

None.
4. The analysis of this bill does not consider any other proposed changes to the system. The combined effect of several changes to the system could exceed the sum of each proposed change considered individually.
5. This fiscal note is intended for use only during the 2003 Legislative Session.
6. The funding method used for Plan 1 utilizes the Plan 2/3 employer/state rate as the Normal Cost and amortizes the remaining liability (UAAL) by the year 2024. Benefit increases to Plan 2/3 will change the UAAL in Plan 1. The cost of benefit increases to Plan 1 increases the UAAL.
7. Plan 2/3 utilizes the Aggregate Funding Method. The cost of Plan 2/3 is spread over the average working lifetime of the current active Plan 2/3 members.

GLOSSARY OF ACTUARIAL TERMS:

Actuarial Present Value: The value of an amount or series of amounts payable or receivable at various times, determined as of a given date by the application of a particular set of Actuarial Assumptions (i.e. interest rate, rate of salary increases, mortality, etc.)

Projected Benefits: Pension benefit amounts which are expected to be paid in the future taking into account such items as the effect of advancement in age as well as past and anticipated future compensation and service credits.

Normal Cost: Completed differently under different funding methods, the normal cost generally represents the portion of the cost of projected benefits allocated to the current plan year.

Unfunded Actuarial Accrued Liability (UAAL): The cost of Plan 1 is divided into two pieces:

- The Normal Cost portion is paid over the working lifetime of the Plan 1 active members. The remaining cost is called the UAAL.
- The UAAL is paid for by employers as a percent of the salaries of all plan 1, 2 and 3 members until the year 2024.

Pension Benefit Obligation (PBO): The portion of the Actuarial Present Value of future benefits attributable to service credit that has been earned to date (past service).

Unfunded Liability (Unfunded PBO): The excess, if any, of the Pension Benefit Obligation over the Valuation Assets. This is the portion of all benefits earned to date that are not covered by plan assets.

School District Payroll Reporting (As Paid / As Earned)

Currently, some 280 school districts use an accounting and payroll system established by the Washington School Information Processing Cooperative (WSIPC). Attempts to use other off-the-shelf accounting and payroll systems have had little success. It has been proposed by TRS representatives that by allowing retirement contributions to be reported to DRS "as paid" instead of under the proposed reported "as earned", school districts could use alternative payroll systems and thus save the State money. Payroll would be reported "as earned" for the calculation of the average final compensation at the time of retirement.

TRS 1 Part-Time Educational Staff Associates

TRS 1 statutes allow less-than-full-time teachers, librarians, and counselors to annualize their salaries upon retirement so as to receive proportionate retirement benefits. Counselors are the one category of Certified Educational Staff Associates (ESAs) that are currently treated consistently with teachers. All other categories of Certified ESAs are not allowed to annualize their salaries for retirement benefit purposes if they earn less than a full year of service credit.

RCW 41.32.010(10)(a)(iii)

For members employed less than full time under written contract with a school district, or community college district, in an instructional position, for which the member receives service credit of less than one year in all of the years used to determine the earnable compensation used for computing benefits due under RCW 41.32.497, 41.32.498, and 41.32.520, the member may elect to have earnable compensation defined as provided in RCW 41.32.345. For the purposes of this subsection, the term "instructional position" means a position in which more than seventy-five percent of the member's time is spent as a classroom instructor (including office hours), a librarian, or a counselor. Earnable compensation shall be so defined only for the purpose of the calculation of retirement benefits and only as necessary to insure that members who receive fractional service credit under RCW 41.32.270 receive benefits proportional to those received by members who have received full-time service credit.

Were an ESA to work half time for 30 years, and they were not a counselor, their retirement benefit would be half that of a half-time Counselor despite making the same salary and contributions.

	Full Time ESA	½ Time Counselor	½ Time Nurse
Salary	\$50,000	\$25,000	\$25,000
Annual Contributions	\$3,000	\$1,500	\$1,500
Retirement Benefit	\$30,000	\$15,000	\$7,500

Occupations

There are 7 Educational Staff Associate positions employed by schools districts: School Counselor, Psychologist, Social Worker, Nurse, Physical Therapist, Occupational Therapist, and Speech Language Pathologist or Audiologist. Similar to teachers, those engaged in these activities must be certified.

Education /Certification

According to the Superintendent of Public Instruction, the educational standards and certification course for these positions may be more rigorous than that of teachers. Counselors, psychologists, social workers, and speech language athologist/audiologists

all require a Master's degree plus passage of a state approved 30 hour certification course. Occupational therapists, physical therapists, and nurses require a Bachelor's degree plus the same 30 hour certification course.

Requirements

The Legislative Evaluation and Accountability Program (LEAP) quantifies the education and training requirements for these positions in what is called a ***mix factor***. A position with a mix factor of 1 requires a Bachelor's degree and no experience. In the latest School District Personnel Summary Profiles for the 2002-2003 school year, the mix factors for ESAs averaged 1.67 while the mix factor for teachers averaged 1.58 (see attached table, duty codes 42-48).

Numbers

As of the 2002-2003 school year, there were 5,444 individuals filling 4,656 full-time-equivalent (FTE) ESA positions. So it appears that these groups do have a significant portion that work less than full-time. The Professional Educators Standards Board estimates that about 600 ESAs would be affected by a change in statute. Considering the difference in individual counts and FTE counts, this would appear a reasonable estimate.

Washington State Superintendent of Public Instruction
School Apportionment and Financial Services
School District Personnel Summary Profiles - 2002-03 - Preliminary

Table 7: All School Personnel by Duty

Duty Assignment	Individuals	Average	Total FTE	Average	Annualized			
		Additional Salary		LEAP 1S Mix Factor	Base Salary	Insur. Ben.	Days in 1 FTE	Total Salary
11 Superintendent	279	1,897	248.60	1.85873	99,486	7,942	247.2	104,934
12 Deputy/Assist. Supt.	159	3,143	133.83	1.82309	100,090	6,572	247.1	104,017
13 Other District Admin.	1,032	1,502	773.04	1.83589	82,096	6,023	238.4	83,539
21 Elementary Principal	1,171	1,280	1,089.42	1.84575	81,834	6,236	235.2	83,007
22 Elem. Vice Principal	170	1,393	135.69	1.70644	71,067	5,945	224.3	71,895
23 Secondary Principal	653	1,206	587.95	1.81072	85,120	6,416	233.9	86,471
24 Secondary Vice Principal	775	1,137	729.59	1.72918	78,693	6,167	233.4	79,391
25 Other School Admin.	394	1,972	179.57	1.78010	67,545	6,120	214.8	71,031
31 Elementary Teacher	31,548	2,546	26,659.41	1.58080	44,899	5,425	182.4	48,079
32 Secondary Teacher	26,298	3,424	21,405.29	1.58441	45,050	5,475	182.4	49,821
33 Other Teacher	7,416	3,051	4,794.45	1.57897	44,834	5,416	182.5	48,909
40 Other Support Personnel	3,340	2,470	694.12	1.76252	50,179	5,423	183.0	57,357
41 Library Media Specialist	1,457	3,892	1,320.33	1.78967	50,763	5,507	182.5	55,637
42 Counselor	2,231	4,278	1,972.29	1.71829	48,744	5,452	182.5	54,300
43 Occupational Therapist	379	3,208	312.96	1.51098	43,689	5,527	182.4	47,658
44 Social Worker	139	3,016	105.27	1.68313	48,131	5,525	182.3	52,354
45 Spch.-Lang. Path./Audio.	1,095	3,107	939.21	1.67035	47,560	5,401	182.4	51,353
46 Psychologist	936	4,472	803.82	1.74670	49,759	5,502	182.5	55,257
47 Nurse	512	2,889	409.02	1.45143	42,305	5,168	182.4	46,057
48 Physical Therapist	152	3,484	113.78	1.56653	45,512	5,503	182.3	49,975
49 Reading Resource Spec.	20	871	11.35	1.88302	55,368	5,498	184.3	60,074
51 Extracurricular	1,101	2,940	98.69	1.79853	60,239	5,894	196.6	67,766
52 Substitute Teacher	52	1,719	29.88	1.40416	37,767	5,501	182.2	42,261
61 Certificated on Leave	497	1,360	53.71	1.79567	50,561	5,612	182.3	56,785
63 Contractor Teacher	110	0	98.07	1.47915	43,260	2,136	182.1	32,396
64 Contractor ESA	10	0	7.45	1.57124	46,951	2,190	182.4	46,052
90 Classified on Leave	199	1,025	4.35	0.00000	47,231	3,957	260.0	53,729
91 Aides	22,820	54	12,082.67	0.00333	26,744	7,055	260.0	27,008
92 Crafts/Trades	1,677	70	1,599.81	0.00084	40,215	5,940	260.0	40,217
93 Laborers	197	48	167.67	0.00000	33,051	5,783	260.0	33,183
94 Office/Clerical	9,629	80	7,374.77	0.00070	32,361	6,320	260.0	32,477
95 Operators	5,939	31	3,103.72	0.00009	32,320	7,110	260.0	32,290
96 Professional	12,733	2,232	1,135.85	0.00643	44,771	6,413	260.0	45,385
97 Service Workers	11,301	45	8,035.18	0.00017	29,193	5,991	260.0	29,225
98 Technical	1,612	216	1,273.63	0.00461	41,748	6,034	260.0	42,076
99 Director/Supervisor	1,415	645	1,234.24	0.01105	60,671	6,150	260.0	61,649
State Summary	149,448	1,814	99,718.66	1.02871	41,926	5,867	212.5	44,469

See introduction for explanation of column headings, glossary for explanation of terms, and appendix for explanation of duty codes.

SCPP 2003 Interim Issues

Issues Suggested to the Joint Committee on Pension Policy

1. **Retire-Rehire Report:** No later than July 1, 2003, the Office of the State Actuary is statutorily required by SSB 5937 C 10, 2nd sp.s. 2001) to prepare a report for the JCPP regarding the fiscal and policy impact of SSB 5937. The JCPP is required to report to the legislative fiscal committees no later than October 1, 2003 on the program impacts of the act.
2. **Public Safety Retirement Benefits:** Public Safety Benefits are in reference to increased/earlier retirement benefits for those PERS 2/3 members in high-risk, or high stress jobs (jailers, corrections officers, PUD line workers, etc.)
3. **Part-time Educational Service Associates:** Educational Service Associates (ESAs) are TRS members who are counselors, psychologists, social workers, speech language pathologist/audiologists, occupational therapists, physical therapists, and nurses. At this time, only counselors may annualize their salaries for retirement benefit purposes if they are employed less than full time.
4. **Survivor Benefits:** LEOFF 1 members are allowed to designate a beneficiary from a post-retirement marriage and accept and actuarially reduced benefit. LEOFF 1 representatives would prefer that the benefit not be actuarially reduced.
5. **Extended School Year and Post-Retirement Employment:** Under existing post-retirement employment provisions, some TRS 1 rehires from extended school year districts may be subject to having their benefit suspended even though they may work up to 1,500 hours per school year.
6. **School District Payroll:** Currently, some 280 school districts use an accounting and payroll system established by the Washington School Information Processing Cooperative (WSIPC). Attempts to use other off-the-shelf accounting and payroll systems have had little success. It has been proposed by TRS representatives that by allowing retirement contributions to be paid to DRS "as paid" instead of paid "as earned" school districts could use alternative payroll systems and thus save the State money.
7. **Projected Funding Results:** Presentation of the most recent actuarial valuation.

Issues Suggested by Others

8. **Plan 3 Vesting:** Change vesting for Plans 3 from 10 years to 5 years. (WASA and AWSP)
9. **Plan 2/3 Early Retirement Reduction Factor:** Lower the service year requirement for TRS, SERS, and PERS plan 2/3 members to qualify for the 3% ERRF from 30 years to 25 years.

10. **PERS and TRS Plan 1 Pension COLAs:** Increase the COLA amount in the Plan 1 Uniform COLA. Provide a "catch-up" COLA for those retired the longest (20 years or more.) Reduce COLA age eligibility.
11. **Credit for Military/Uniformed Service:** Provide the same credit for prior military service for TRS 1 members as is available to PERS 1 members.
12. **Credit for Out-of-State Employment:** Develop improved avenues for experienced out-of-state educators to purchase or transfer retirement service credit into Washington State.
13. **Optional Membership:** Allow school superintendents and administrators transferring from other states optional membership into the Washington retirement systems.
14. **Improve Gain-sharing:** Annualize the distribution of extraordinary earnings. Lower the threshold for gain-sharing from 10% to 8%. Allow Plan 2 members to be eligible for gain-sharing.
15. **Contribution Rates:** Make changes to the process of setting contribution rates so that rates become more stable. Amortization of Plan 1 unfunded liability should be shortened not lengthened.
16. **Retirement Governance:** Increase active and retiree representation on the SCPP. Have the SCPP set the contribution rates rather than the PFC. Give "trust fund" status to the state's public pension funds.
17. **Link the K-12 and State Employee Health Benefit State Allocation:** Increase the state health benefit allocation to school districts so that allocation rates are linked with state employees.
18. **Retiree Health Care:** Continue to fund the retiree health subsidy at levels that keep up with rising health insurance costs. Allow additional K-12 retirees to enroll in HCA through an "open window."
19. **Retirement Age in Plan 2:** Reduce the normal retirement age in the plans 2.
20. **Mandatory Retirement in the Washington State Patrol Retirement System:** Raise the mandatory retirement age in the State Patrol from age 60 to age 65.
21. **Unreduced Survivor Benefit in the Washington State Patrol Retirement System:** The beneficiaries of officers killed in the line of duty should be provided an unreduced earned benefit.

Executive Committee Meeting

November Agenda Planner

FULL COMMITTEE AGENDA

- (1) LEOFF 1 Survivor Benefits
- (2) Recovery of Lost Purchasing Power
- (3) Extended School Year Post-retirement Employment
- (4)
- (5)
- (6)

EXECUTIVE COMMITTEE AGENDA

- (A)
- (B)
- (C)
- (D)

December Agenda Planner

FULL COMMITTEE AGENDA

Executive Action on Bills

(1)

(2)

(3)

(4)

(5)

(6)

EXECUTIVE COMMITTEE AGENDA

(A)

(B)

(C)

(D)

SELECT COMMITTEE ON PENSION POLICY

Proposed Meeting Schedule

(October 17, 2003)

August 19, 2003

9 AM - 12:30 PM, Senate Hearing Room 4

Election of Officers

Role of SCPP:

Review of Ch 295

Open Public Meetings Act

Ethics Law

Rules of Procedure

Session Update

Possible Interim Issues

Meeting Schedule

November 18

10 AM - 12:30 PM

LEOFF 1 Survivor Benefits

Recovery of Lost Purchasing Power

Extended School Year Post-ret Employment

September 16, 2003

1 - 3:30 PM, Senate Hearing Room 4

Election of Chair and Vice Chair

Rules of Procedure

Post-retirement Employment Report

PERS Public Safety

Part Time Educational Staff Associates

Meeting Schedule

December 16

10 AM - 12:30 PM

Proposed Legislation

October 21

10 AM - 12:30 PM

PERS Public Safety Committee Report

Post-retirement Employment Report

Projected Rates and Funding

Plan 3 Vesting